

When Luck Runs Out

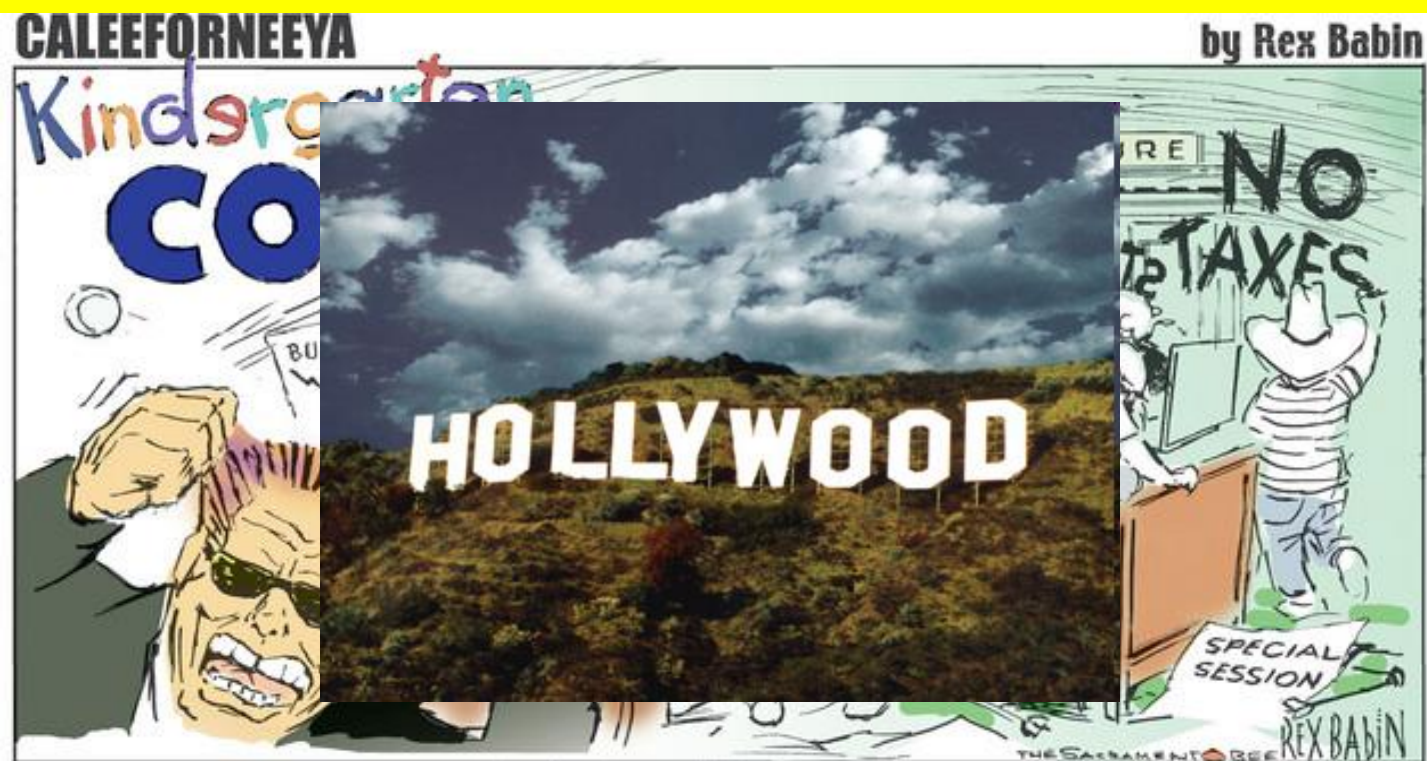
CALEEFORNEEYA

by Rex Babin



Daniel J.B. Mitchell
January 30, 2009

When Luck Runs Out



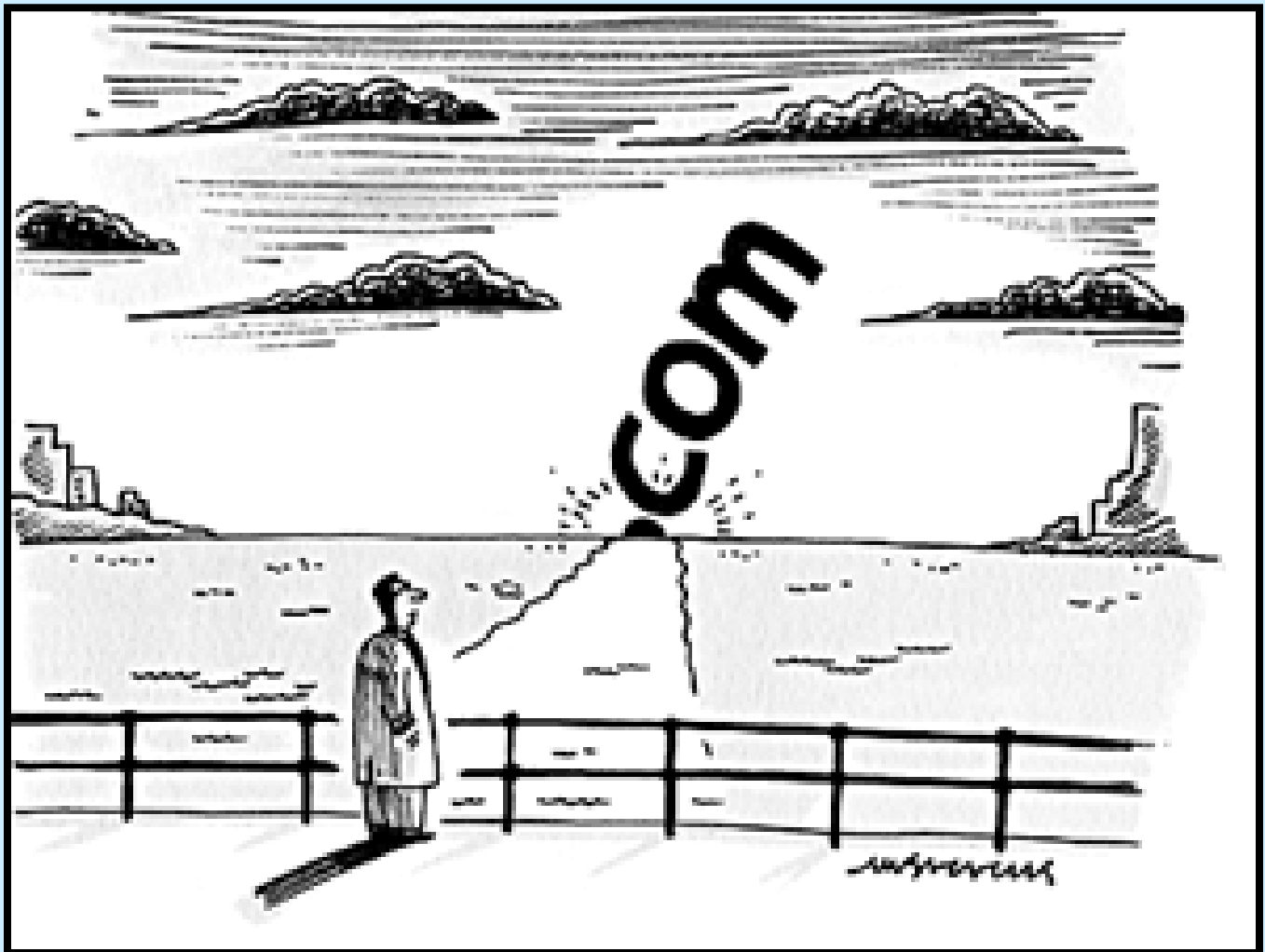
Daniel J.B. Mitchell
January 30, 2009

When Luck Runs Out



January 30, 2009

Or did we know?



Or did we know?



supposed to be
Repetition is a teacher



**But let's come back to the issue
of surprise after asking
another question...**

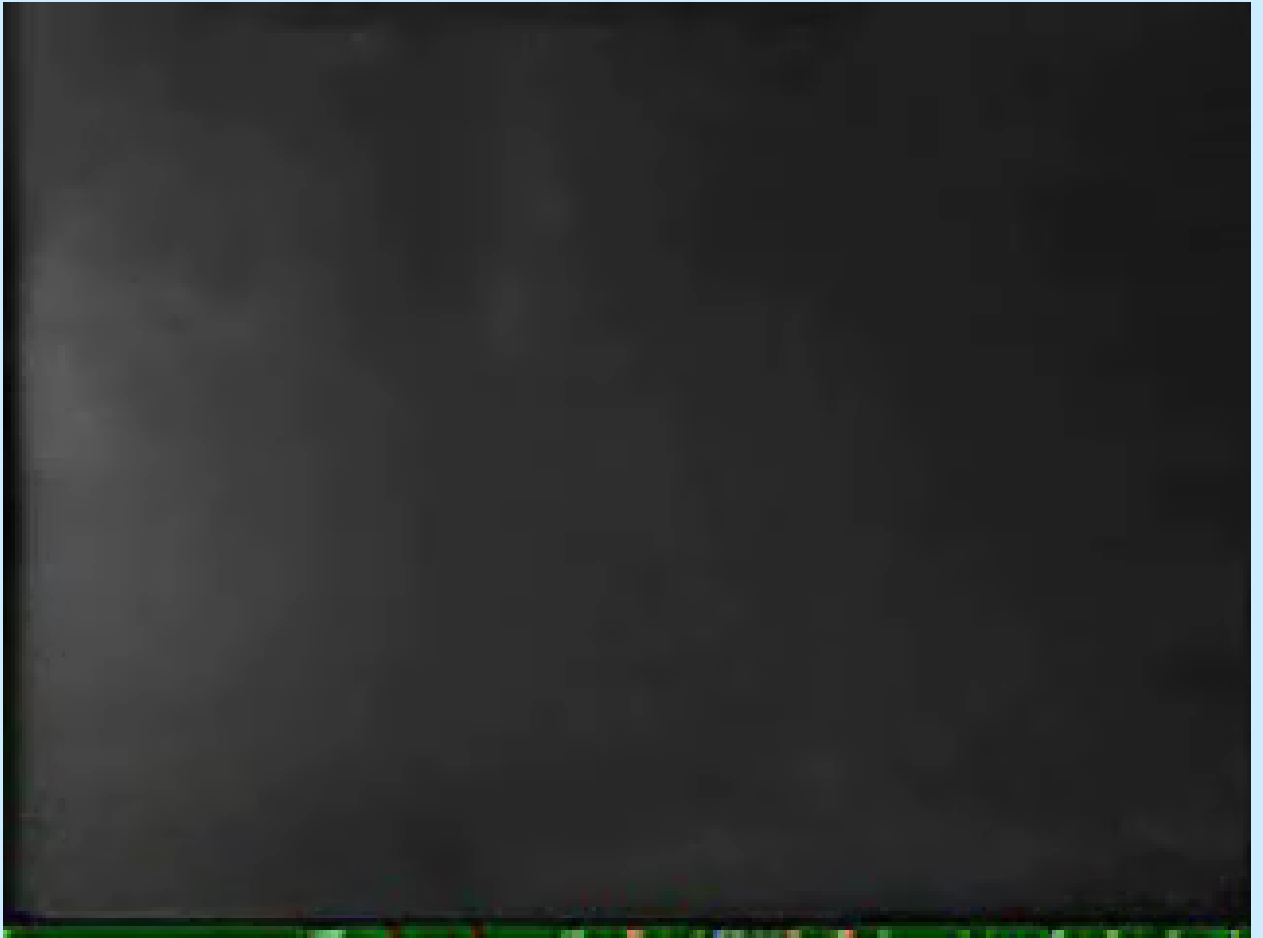


What is a “deficit”?

August 2007



What is a “deficit”?



*Does it just mean no money left
to spend?*



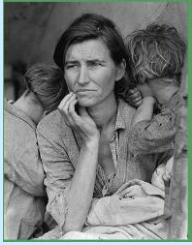
State Budget 101





State Budget 101

Constraints on the players



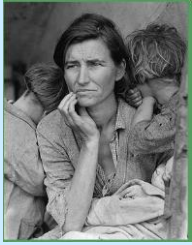
- Depression-era 2/3 rule for passing budgets
- Prop 13 rule: 2/3 for increasing taxes (as opposed to “fees”)
- Voter initiatives requiring spending by formula, e.g.,
 - *Prop 98 (K-14 education)*
 - *Prop 49 (After-school activities)*
- Term Limits





State Budget 101

Constraints on the players



- Depression-era 2/3 rule for passing budgets
- Prop 13 rule: 2/3 for increasing taxes (as opposed to “fees”)
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 - *Prop 98 (K-14 education)*
 - *Prop 49 (After-school activities)*
- Term Limits





State Budget 101

Transparency

- On the web?
- Promote understanding?





State Budget 101

Transparency

- On the web? (Grade A)
 - Promote understanding?
- Depends on definitions**

California Home Department of Finance Governor's Web Site Department Index Site Map Help Thursday, October 23, 2008

Welcome to California's

GOVERNOR'S BUDGET 2008-09

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Enacted Budget Summary

Summary Charts
Revenue Estimates
Major Program Areas

Enacted Budget Detail

K thru 12 Education
Higher Education
Health and Human Services
Corrections and Rehabilitation
Business, Transportation & Housing Resources
Environmental Protection
State and Consumer Services
Labor and Workforce Development
General Government
Legislative, Judicial, and Executive

Budget References

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Enacted Budget Summary

The Enacted Budget Summary reflects the state spending plan passed by the Legislature and signed by the Governor. The Enacted Budget Summary provides [Summary Charts](#), [Revenue Estimates](#), Enacted Budget Summary information for selected [Major Program Areas](#), and veto messages.

[Budget Overview](#)
[Printable Budget Documents](#)

 To access the entire Enacted Budget Summary document (including veto messages) in a printable format (pdf), click here:
[Enacted Budget Summary - All Chapters](#) (pdf * - 1052K)

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[Introduction](#)

The 2008 Budget Act resolves the \$24.3 billion budget deficit identified in the May Revision. It provides a modest reserve of \$1.7 billion this year, but projects a deficit of \$1.0 billion in 2009-10. While this budget does not resolve the state's persistent structural budget deficit, it includes a historic budget reform measure that puts California on the path to fiscal stability and avoids borrowing from local governments or transportation funds.

 Go to the [Enacted Budget Detail](#) web pages.

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State Budget 101

Transparency

Promote understanding? Depends on definitions

- Budget Definitions from Dept. of Finance and Legislative Analyst's Office
- Cash Statement Definitions from Controller Especially with Regard to “Borrowable Resources”

Californ
Home
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Summar
Revenue
Major Pr
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K thru 12
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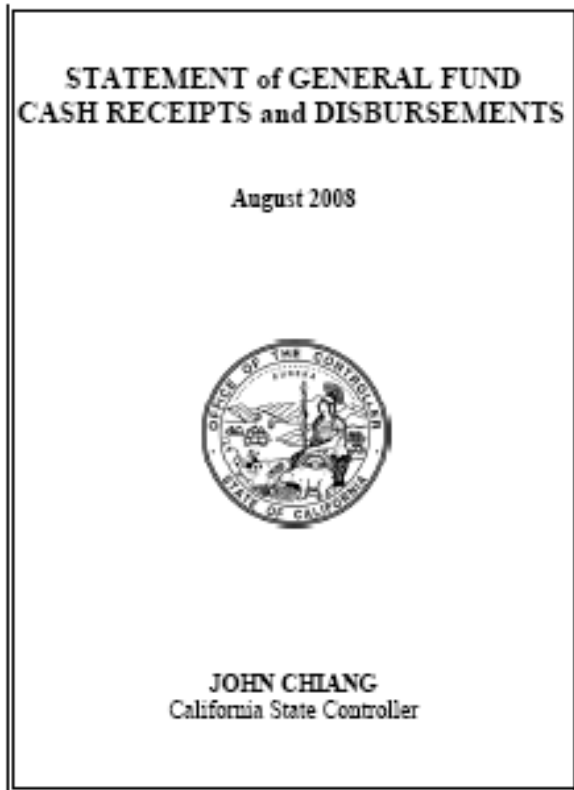
Lots of Other Funds Besides the General Fund:

Examples

- **Film California First Fund**
- **Bicycle Transportation Account**
- **Abandoned Watercraft Abatement Account**
- **Bureau of Thermal Insulation and Home Furnishings Fund**
- **California Collegiate License Plate Fund**



Borrowable Resources



Footnote (g) Additional funds of \$492 million were identified as borrowable and are included in the actual Available Borrowable Resources.

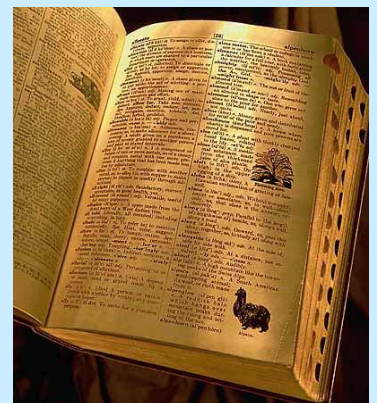
<http://www.sco.ca.gov/ard/cash/0809/aug.pdf>



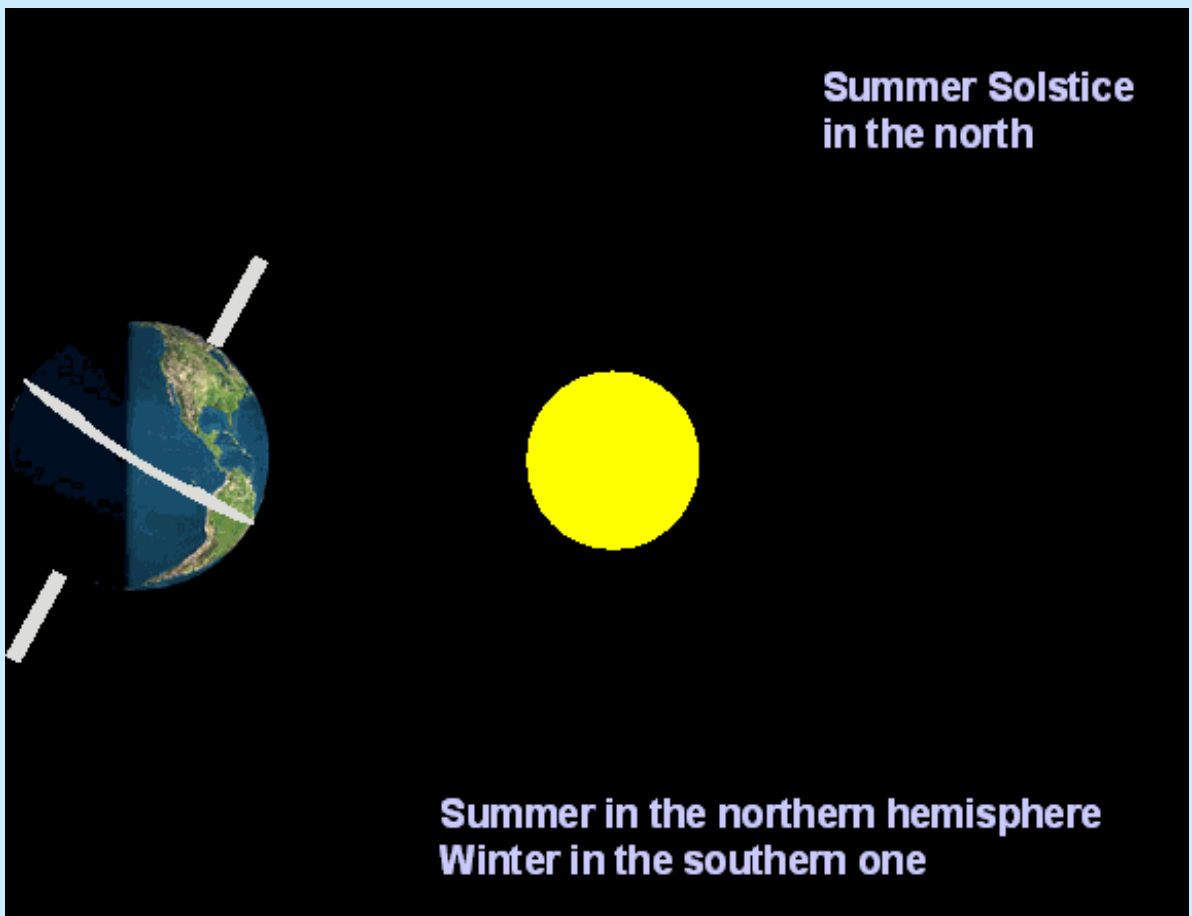
**“Deficit” should mean
income less than
expenditure (a flow concept)**

- *Income = taxes, fees, receipts from feds, interest earned on state funds, etc.*
- *Expenditure = state purchases (including wages), grants to other governments, transfers to individuals, debt service on state debt, etc.*
- *Usually, we refer to the “general fund” when we talk of the state budget deficit or surplus.*

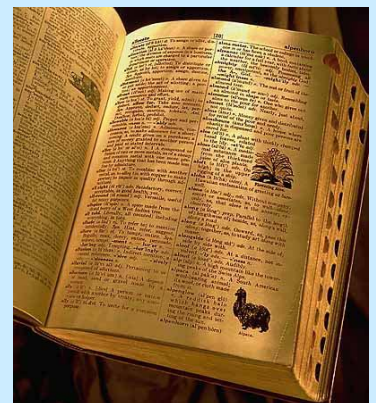
GF = 75-80% of total budget



**“Deficit” should mean
income less than
expenditure...**



...during one year



Sin #1



The term deficit in California-speak is often a confusing multiyear mix of stock and flow

- **Past accumulated deficits in general fund (stock) plus**
- **Estimated current year's deficit (flow) plus**
- **Next year's deficit if we don't do anything (flow)**

Sin #2



Moreover, borrowing and sales of assets are treated as revenue, often under the heading “revenue and transfers”

Sin #3



Terms such as “shortfall,” “gap,” and “hole” - which have no definition at all - are often used to describe the budget, both by officials and the news media

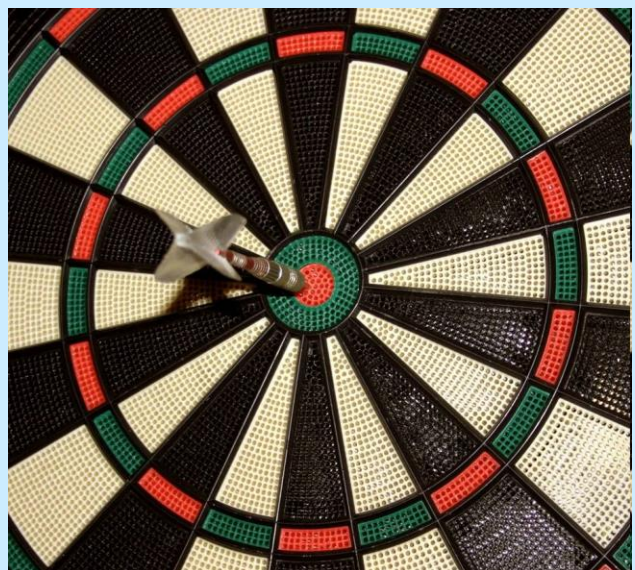


State Budget 101

Transparency vs. Accuracy



**Budgets are
projections,
especially of
revenue**

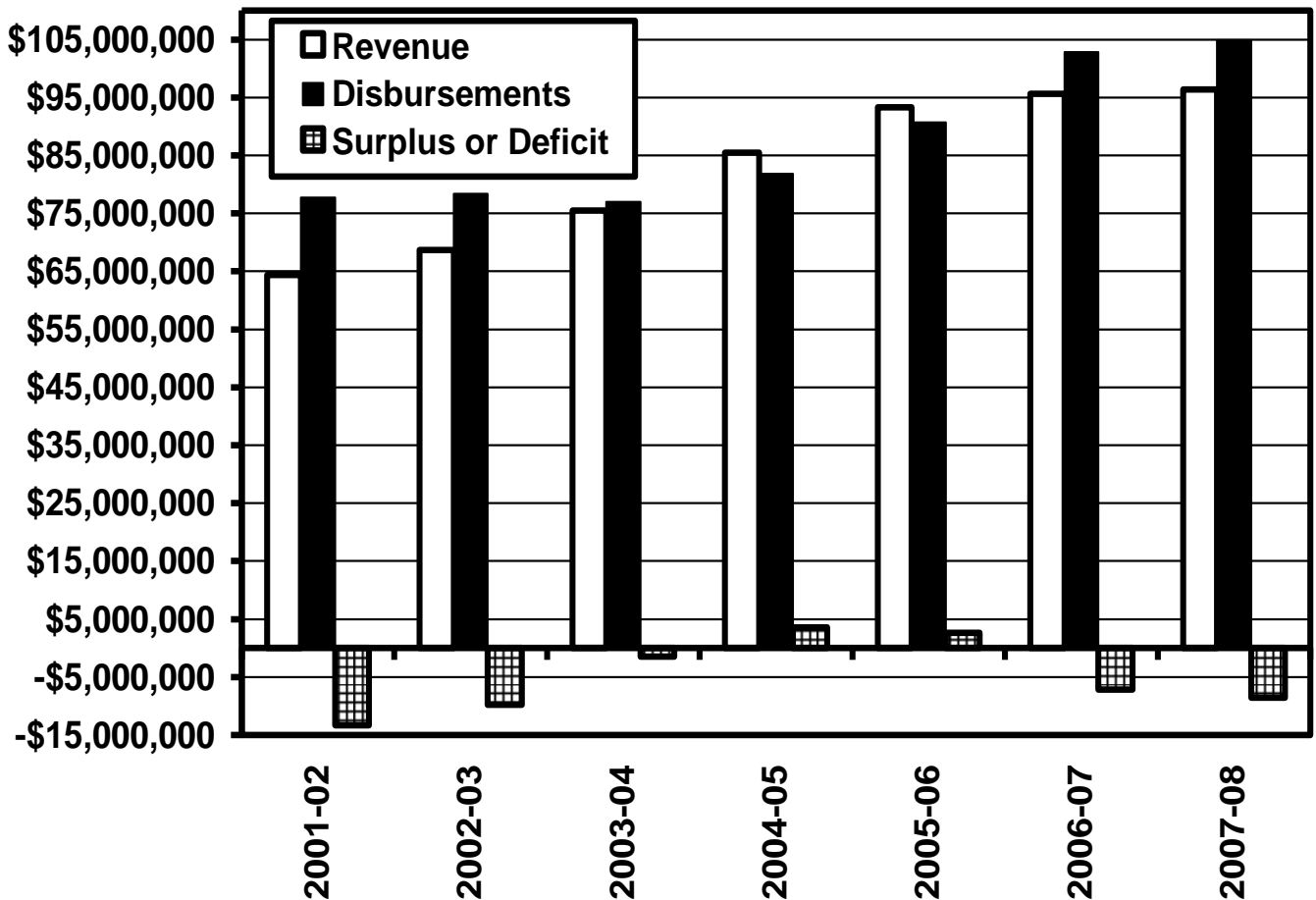




State Budget 101

Looking Backwards

Adjusted Cash Statement (\$000)



*Is the current budget crisis
an unpleasant surprise?*



Two scenarios

**Did the budget problem
just creep up when no
one was looking?**



Bird Scenario



**Or did we really know
what was happening?**



***Casablanca
Scenario***



Or did we really know what was happening?





March 26, 2007



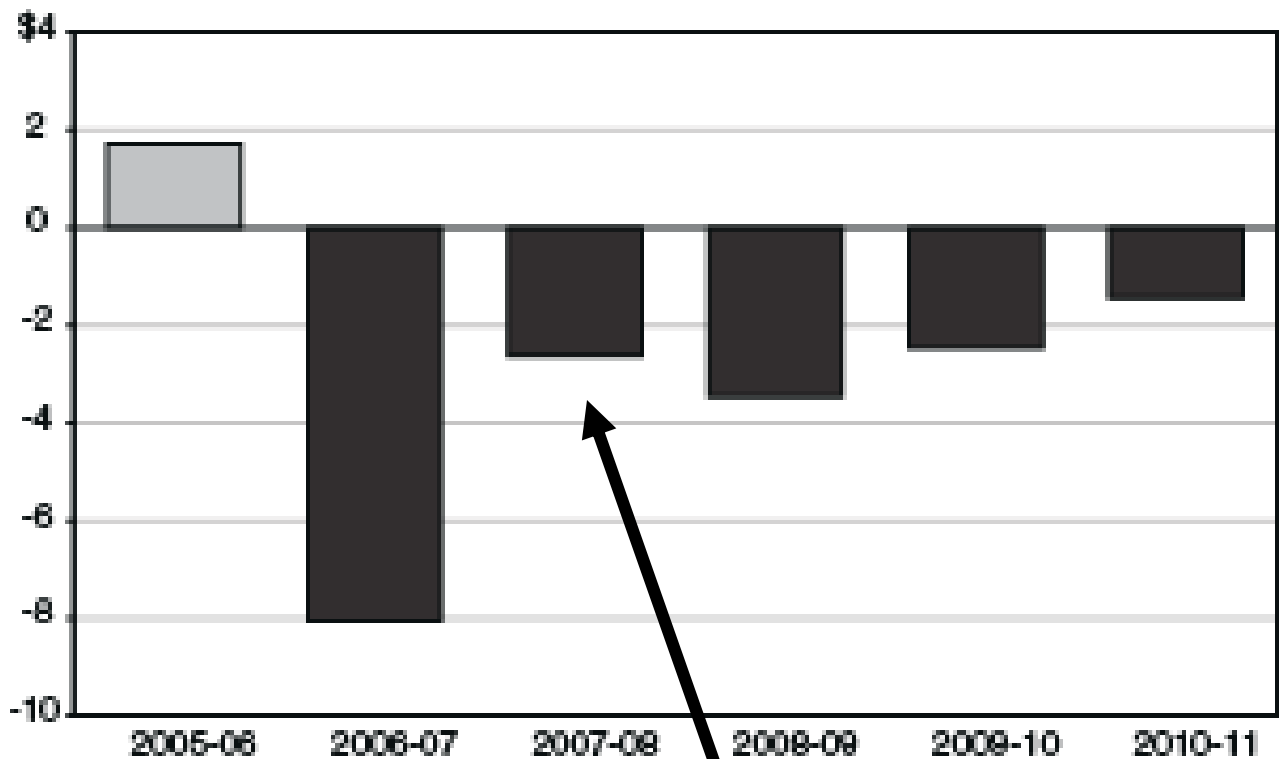
LAO Projections as of mid-Feb. 2007



Deficits

Significant Operating Shortfalls^a Would Remain

General Fund (In Billions)



^aAnnual revenues minus expenditures. Legislative Analyst's Office estimate of Governor's revenue and expenditure policies.

-\$2+ billion

**When you are at the
peak, you can't fall up**



Groping for a Solution



**Long-term solution proposed by governor
along with his January 2008 budget message:**

Rainy Day Fund



Problem #1:



You can only accumulate a rainy day fund when the Sun is shining. What we could have done in the past doesn't fix today's problem.

Problem #2:



The rainy day fund the governor would like to mandate (about 12% of the GF) is roughly what Gray Davis had at the dot-com peak.

The Current Approach to Budgeting



The Short-Run Solution?



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